

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
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R 150009Z FEB 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 6316
INFO AMCONSUL CALGARY
AMCONSUL HALIFAX
AMCONSUL MONTREAL
AMCONSUL QUEBEC
AMCONSUL TORONTO
AMCONSUL VANCOUVER
AMCONSUL WINNIPEG

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DEPT. PASS CEA, TREAS, FRB

E.O. 11652:N/A
TAGS: EFIN, ECON, CA
SUBJECT: RECENT ECONOMIC AND FINANCIAL DEVELOPMENTS

1. SUMMARY. FEDERAL/PROVINCIAL ECONOMIC SUMMIT ON FEB.13
GOT OFF TO REASONABLY SMOOTH START (SEE SEPTTEL). RATE OF
INFLATION HAS MODERATED SOMEWHAT; FOOD PRICES CONTINUE AS
MAIN SOURCE OF INFLATIONARY PRESSURE. RECENT INDICATORS
SHOW RISE IN BUSINESS OPTIMISM, BUT SOME SLACKENING OF
CONSUMER DEMAND. CORPORATE PROFITS RECOVERED CONSIDERABLY
IN 1977 FOLLOWING TWO YEARS OF DISMAL PERFORMANCE; PROFITS
IN SOME SECTORS, HOWEVER, EXTREMELY WEAK. TRAVEL STATISTICS
CONTINUE TO REFLECT POSITIVE IMPACT OF CANADIAN DOLLAR
DEPRECIATION. CAPITAL MARKETS CALM WEEK ENDING FEBRUARY 10,
WITH LITTLE CHANGE IN SHORT OR LONG TERM INTEREST RATES.

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CANADIAN DOLLAR DECLINED AGAINST U.S. DOLLAR. END SUMMARY.

2. DOMESTIC DEVELOPMENTS; PRICES. RATE OF CPI INCREASE
MODERATED SOMEWHAT IN JANUARY SHOWING 12 MONTH INCREASE OF
9 PERCENT COMPARED WITH 9.5 PERCENT RISE IN DECEMBER (SEE
SEPTTEL). FOOD PRICES CONTINUE AS MAIN INFLATIONARY FACTOR.
INDEX OF INDUSTRY SELLING PRICES ROSE 0.2 PERCENT IN DECEM-

BER FROM REVISED NOVEMBER LEVEL OF 77.5. INDEX STOOD 7.4 PERCENT ABOVE LEVEL OF DECEMBER 1976. WHOLESALE PRICE INDEX ADVANCED ONLY 0.1 PERCENT BETWEEN NOVEMBER AND DECEMBER, BUT REGISTERED 12 MONTH INCREASE OF 8.9 PERCENT. FASTER RISE OF WHOLESALE PRICE INDEX RELATIVE TO INDEX OF INDUSTRY SELLING PRICES IN 12 MONTHS TO DECEMBER IS LARGELY ATTRIBUTABLE TO FACT THAT FOOD FIGURES MORE IMPORTANTLY IN WHOLESALE PRICE INDEX AND THAT FOOD PRICE INCREASES IN 1977 OUT DISTANCED PRICE INCREASES OF OTHER ITEMS.

3. DEMAND CONDITIONS. STATCAN SURVEY INDICATES THAT MANUFACTURERS ARE SOMEWHAT MORE OPTIMISTIC ABOUT LEVEL OF PRODUCTION IN FIRST QUARTER OF 1978 THAN THEY WERE FOR PRODUCTION IN FINAL QUARTER OF LAST YEAR. RESULTS SHOW THAT 28 PERCENT OF RESPONDENTS EXPECT PRODUCTION TO RISE IN FIRST QUARTER THIS YEAR, UP FROM 26 PERCENT IN OCTOBER SURVEY, WHILE 22 PERCENT EXPECT LOWER PRODUCTION, DOWN FROM 24 PERCENT. SURVEY ALSO INDICATES THAT EXPECTATIONS CONCERNING NEW ORDERS HAVE IMPROVED AND THAT BUSINESS CONSIDERS LEVEL OF INVENTORIES TO BE "ABOUT RIGHT". MOST SIGNIFICANT IMPROVEMENT IN OUTPUT EXPECTATIONS BETWEEN OCTOBER AND JANUARY SURVEYS WAS IN EXPORT INDUSTRIES, REFLECTING PERCEPTION OF IMPROVED COMPETITIVE POSITION RESULTING FROM CANADIAN DOLLAR DEPRECIATION.

4. ALTHOUGH OUTPUT EXPECTATIONS ARE MORE BUOYANT, CONSUMER UNCLASSIFIED

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DEMAND SEEMS TO HAVE TAILED OFF, AFTER SEVERAL MONTHS OF STRONG INCREASES. SEASONALLY ADJUSTED RETAIL SALES FOR DECEMBER WERE CDOLS 5.4 BILLION, A DECREASE OF 0.3 PERCENT FROM NOVEMBER LEVELS. ON NON-SEASONALLY ADJUSTED BASIS, RETAIL SALES IN DECEMBER INCREASED 7.7 PERCENT FROM DECEMBER 1978. CPI INCREASE OVER THIS PERIOD WAS 9.5 PERCENT, INDICATING POSSIBLE DECLINE IN VOLUME OF RETAIL TRADE.

5. PROFITS. PRELIMINARY SURVEY OF CANADIAN CORPORATIONS INDICATES THAT PROFITS ROSE BY 15.1 PERCENT IN 1977 COMPARED WITH INCREASE OF ONLY 2.8 PERCENT IN 1976 AND 5.2 PERCENT DECLINE IN 1975. REAL PROFITS ALSO INCREASED, BUT RISE WAS INSUFFICIENT TO OFFSET CUMULATIVE REAL DECLINE OVER PREVIOUS TWO YEARS. MOREOVER, PROFIT PERFORMANCE WAS MIXED ACROSS SECTORS. OIL AND FOREST SECTORS RECORDED STRONG (OVER 40 PERCENT) INCREASE IN PROFITS, WHILE INDUSTRIAL MINING SECTORS REGISTERED 33 PERCENT DECLINE. DEPRECIATION OF CANADIAN DOLLAR BOLSTERED PROFITS OF SOME EXPORTERS AND MODERATED DECLINE FOR OTHERS. INCO SUFFERED SHARP PROFIT DECLINE, BUT FALL WOULD HAVE BEEN WORSE IN ABSENCE OF CDOLS 17.6 MILLION INCREASE IN CANADIAN DOLLAR RECEIPTS RESULTING FROM DEPRECIATION.

6. BANKING AND FINANCE. IN RECENT INTERVIEW, MANITOBA FINANCE MINISTER DON CRAIK SAID THAT PROVINCIAL GOVERNMENT WOULD LAUNCH NATIONAL CAMPAIGN TO GIVE PROVINCES MORE CONTROL OF BANK OF CANADA MONETARY POLICY. HE ALSO PROPOSED CREATION OF NATIONAL AGENCY TO MONITOR FOREIGN BORROWING OF PROVINCES AND CROWN CORPORATIONS. PREMIER LYON SUBSEQUENTLY REITERATED THESE PROPOSALS ON FIRST DAY OF FEDERAL/PROVINCIAL ECONOMIC SUMMIT AND RECEIVED SUPPORT FROM B.C. PREMIER BENNETT (SEE SEPTTEL.).

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7. EXTERNAL DEVELOPMENTS. PRELIMINARY TRAVEL STATISTICS FOR DECEMBER REFLECT CONTINUING IMPACT OF CANADIAN DOLLAR DEPRECIATION. NUMBER OF CANADIAN VISITORS TO U.S. DECLINED BY 1.4 PERCENT BETWEEN DECEMBER 1976 AND DECEMBER 1977, ALTHOUGH NUMBER OF U.S. VISITORS TO CANADA FELL BY 0.3 PERCENT. CANADIAN TRAVEL TO COUNTRIES OTHER THAN U.S. FELL BY 7 PERCENT OVER THIS PERIOD; VISITORS FROM THESE COUNTRIES TO CANADA WAS OFF BY 1.9 PERCENT. FOR 1977 OVERALL, CANADIAN VISITS TO U.S. AND OTHER COUNTRIES ROSE BY 5.5 PERCENT AND 12.3 PERCENT RESPECTIVELY; NUMBER OF U.S. AND OTHER FOREIGN VISITORS TO CANADA RECORDED RESPECTIVE DECLINES OF 1.4 PERCENT AND 9.7 PERCENT. CONTRAST BETWEEN DECEMBER (AND NOVEMBER) TRAVEL FIGURES AND STATISTICS FOR 1977 AS A

WHOLE PROBABLY REFLECTS LAGGED ADJUSTMENT OF TRAVEL TO
DECLINE OF DOLLAR.

8. CAPITAL MARKETS. CAPITAL MARKETS WERE CALM IN WEEK
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ENDING FEBRUARY 10. INTEREST RATE ON 3 MONTH TREASURY
BILLS WAS 7.20 PERCENT COMPARED WITH 7.19 PERCENT PREVIOUS
WEEK. LONG TERM INTEREST RATES WERE STABLE.

9. EXCHANGE MARKETS. CANADIAN DOLLAR DECLINED TO 90.07
U.S. CENTS IN WEEK ENDING FEBRUARY 10, DOWN SLIGHTLY FROM
PREVIOUS WEEK AVERAGE OF 90.19 U.S. CENTS. ENDERS

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